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July 25, 2007

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SC PUBLIC SERVICE  
COMMISSION

**VIA HAND DELIVERY**

The Honorable Charles Terreni  
Chief Clerk/Administrator  
**Public Service Commission of South Carolina**  
101 Executive Center Drive  
Columbia, South Carolina 29211

RE: Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies of  
South Carolina Electric & Gas Company  
Docket No. 2007-5-G

Dear Mr. Terreni:

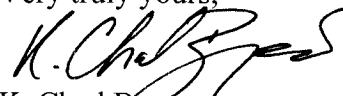
On July 10, 2007, the Public Service Commission of South Carolina ("Commission") conducted a hearing in the above-referenced docket. At the conclusion of the hearing, the Commission requested that South Carolina Electric & Gas Company ("SCE&G" or "Company") and the South Carolina Office of Regulatory Staff ("ORS") submit proposed orders for the Commission's consideration. As a result, SCE&G and ORS have mutually agreed to file a joint proposed order.

On behalf of SCE&G and ORS, enclosed you will find a joint proposed order entitled "Order Approving and Adopting Settlement Agreement." Please acknowledge your receipt of this document by file-stamping the extra copy that is enclosed and returning it to us via our courier.

Additionally, as part of this proceeding, SCE&G requested that the Commission approve new demand cost of gas ("DCOG") allocation factors and that the new DCOG allocation factors be effective as of August 1, 2007. Therefore, in order to include the new DCOG allocation factors within its total cost of gas factor calculation to be effective with the Company's first billing cycle in August 2007, SCE&G respectfully requests that the Commission address this matter at its next agenda meeting currently scheduled for Thursday, July 26, 2007.

Thank you in advance for the expeditious treatment of this matter. If you have any questions or concerns, please do not hesitate to contact us.

Very truly yours,

  
K. Chad Burgess

KCB/kms  
Enclosure

The Honorable Charles Terreni

July 25, 2007

Page 2

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cc: Shannon Bowyer Hudson, Esquire  
Jeffrey M. Nelson, Esquire  
(both via hand delivery)

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA

DOCKET NO. 2007-5-G ORDER NO.2007-

JULY\_, 2007

|  |   |                     |
|--|---|---------------------|
| IN RE: Annual Review of Purchased Gas Adjustment | ) | ORDER               |
| and Gas Purchasing Policies of South             | ) | APPROVING AND       |
| Carolina Electric and Gas Company                | ) | ADOPTING SETTLEMENT |
|  | ) | AGREEMENT           |

Order No. 87-898, issued on August 14, 1987, requires that the Public Service Commission of South Carolina ("Commission") conduct annual reviews of the Purchased Gas Adjustments and the Gas Purchasing Policies ("PGA") of South Carolina Electric & Gas Company ("SCE&G" or "Company"). Pursuant to that order, the Commission opened the present docket for the purpose of conducting SCE&G's 2007 Annual PGA Review. On February 5, 2007, the Commission issued a notice of hearing and set return dates for filing to intervene.

By letter dated February 5, 2007, the Commission instructed the Company to publish a notice in a newspaper of general circulation in the affected areas advising all interested parties of the manner and time in which to file pleadings to obtain the right to participate in this review. The Commission further instructed SCE&G to provide direct notification of the PGA review to each affected customer. The Company filed affidavits to confirm its compliance with the Commission's instructions.

The South Carolina Office of Regulatory Staff ("ORS") appeared as a party in this matter pursuant to S.C. Code Section 58-4-10 (Supp. 2006). As the gas utility under review, SCE&G was made a party directly in the notice and appeared by counsel in the proceeding. ORS and

SCE&G are hereafter referred to collectively as the “Parties” or sometimes individually as a “Party.” No other parties sought to intervene in this proceeding.

By letters dated May 3, 2007 and June 12, 2007, the Commission’s docketing department issued scheduling directives to all parties establishing the dates for the parties to prefile testimony and exhibits in this case.

The period under review in this docket is September 1, 2006 through February 28, 2007 (“Review Period”).

On May 29, 2007, SCE&G pre-filed the direct testimony of witnesses Harry L. Scruggs, Martin K. Phalen, and Rose Jackson. On June 21, 2007, ORS pre-filed the testimony of witnesses Roy H. Barnette and Carey M. Flynt. On June 21, 2007, the Parties to the proceeding filed a comprehensive Settlement Agreement (the “Settlement Agreement”) wherein they stipulated to a resolution of all issues in the proceeding.

A hearing in this matter was held before the Commission on July 10, 2007. The Honorable G. O’Neal Hamilton, Chairman, presided. The ORS was represented by Shannon Bowyer Hudson, Esquire and Jeffrey M. Nelson, Esquire. SCE&G was represented by Chad Burgess, Esquire; Mitchell Willoughby, Esquire; and Belton Zeigler, Esquire.

At the opening of the hearing, Ms. Shannon Bowyer Hudson, counsel for ORS, moved the Settlement Agreement between the Parties into the record along with the pre-filed testimony and exhibits of all ORS witnesses. Mr. Chad Burgess moved into the record the pre-filed testimony and exhibits of all SCE&G witnesses. The Settlement Agreement adopted the cost of gas calculations for the Review Period as set forth in ORS Audit Exhibit RHB-1, which was attached to the testimony of Roy H. Barnette.

At the hearing and as stipulated in the Settlement Agreement, SCE&G presented direct

testimony from Martin K. Phalen, Rose Jackson and Harry L. Scruggs. ORS presented direct testimony from Roy H. Barnette and Carey M. Flynt. Consistent with the terms of the Settlement Agreement, all of the witnesses who pre-filed direct testimony in this proceeding presented such testimony before the Commission and were subject to questioning by the Commissioners.

The Commission has considered the testimony and the exhibits of the witnesses and the other evidence of record in this proceeding including the Settlement Agreement. Based on this factual record, the Commission concludes, as the Parties have stipulated, that adoption of the Settlement Agreement is in the best interest of SCE&G's customers, the State of South Carolina, and the financial integrity of the Company.

In making this finding, the Commission specifically finds that during the Review Period, SCE&G: a) properly administered the purchased gas adjustment; b) employed prudent gas purchasing practices and policies; c) administered the Industrial Sales Program-Rider ("ISP-R") prudently and reasonably and in accordance with the terms of Order No. 2005-619 which authorized that program in its current form; d) recovered its gas costs consistent with all applicable tariffs and Commission orders; and, e) has prudently prepared to meet its customers' needs through its future supply and capacity asset plans.

The Commission finds, as stipulated by the Parties in the Settlement Agreement, that it is just and reasonable to maintain the monthly adjustment procedure for the total cost of gas factors as adopted by the Commission in Docket No. 2006-5-G, Order No. 2006-679 and the notification procedure related to such adjustments. In addition, the Commission approves the stipulation by the Parties that the demand charges included in the cost of gas factors will continue to be calculated as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679, by

distributing such costs among the rate schedules based on an allocation formula which reflects a 50% weighting of peak design day demand and a 50% weighting of annual forecasted sales.

The Commission finds that the “Purchased Gas Adjustment, Firm Gas Only” tariff sheets attached to Mr. Scruggs’s testimony as Hearing Exhibit 3 are proper in that (a) they cause the demand costs to be based on actual demand costs and sales volumes; and (b) they eliminate Transportation Service only volumes from the calculation of future monthly demand charges so that the demand cost of gas charges are recovered on a more appropriate cost-causation methodology. The Commission agrees with the stipulation contained in the Settlement Agreement that these revised tariff provisions should be made effective August 1, 2007 and that Demand Charges cost of gas factors should be calculated using the method set forth on those tariff sheets beginning that month.

The Commission finds, as stipulated by the Parties in the Settlement Agreement, that the “Rate 35 Transportation and Standby Sales Service” tariff sheet attached to Mr. Harry L. Scruggs’s testimony as Hearing Exhibit 3 is proper. This tariff change requires an annual contractual election of (a) Transportation Service only, (b) Transportation Service with Standby Service or, (c) Standby Service only which is anticipated to provide greater certainty as to the volume of gas supply the Company must stand ready to provide. The Commission finds that as part of the recalculation of PGA factors for the month following the annual contractual elections by customers selecting Rate 35, SCE&G shall recalculate the Demand Charges cost of gas factors consistent with those elections.

The Commission finds that the stipulation in the Settlement Agreement allowing SCE&G to recover through the PGA the un-recovered demand costs accumulated under the PGA tariff sheet, approved in Commission Docket No. 2005-113-G and Order No. 2005-619, is just and

reasonable. The amount of those costs is \$1.189 million as of February 28, 2007, and will also include additional amounts arising between that date and the effective date of this Order. The Commission finds that these costs are more appropriately recovered through the PGA than through base rate adjustments made pursuant to the Natural Gas Rate Stabilization Act, S.C. Code Ann. § 58-5-400, et seq. The Company has made an off-setting adjustment to its RSA filing to reflect recovery of these amounts through the PGA.

The Commission further approves the recovery by SCE&G of carrying costs on the cumulative total over or under-collection balances using the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679 for the same reasons set forth in that Order.

At the hearing, the Commission questioned Company and ORS witnesses in detail concerning SCE&G's natural gas hedging program. The Commission is aware that the program in its current form has been in place for less than a year and that the Company and ORS continue to monitor its results and benefits to customers. The Commission finds that the Company conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Docket No. 2006-5-G, Order No. 2006-679. The Commission further finds that it is appropriate for SCE&G to continue its hedging program, as approved by the Commission in Docket No. 2006-5-G, Order No. 2006-679, until further order of the Commission. SCE&G shall continue to report to the ORS and the Commission within 30 days of the close of each month the results of the hedging program for the preceding months along with other information as stipulated in the Settlement Agreement.

Based on the Settlement Agreement and the testimony and exhibits entered into the record, the Commission finds that the Company's gas purchasing policies and practices during

the Review Period were reasonable and prudent. The Commission further finds that all matters contained in the Settlement Agreement are appropriate for adoption in this proceeding and therefore finds that the Settlement Agreement is in the public interest and is a reasonable resolution of all issues in this case.

**IT IS THEREFORE ORDERED THAT:**

1. The Settlement Agreement attached hereto as Order Exhibit No. 1, which was stipulated to by all Parties and accepted into the record without objection at the hearing, is incorporated into and made a part of this Order. Further, the Settlement Agreement constitutes a reasonable resolution to this proceeding and is hereby adopted as such.

2. SCE&G's gas purchasing policies and practices during the Review Period were within the guidelines established in prior Commission orders and were reasonable and prudent.

3. SCE&G properly applied the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

4. The appropriate cost of gas calculations for the Review Period are as set forth in ORS Audit Exhibit RHB-1, as attached to the testimony of Roy H. Barnette.

5. The Commission approves and adopts the "Purchased Gas Adjustment, Firm Gas Only" tariff sheets as attached to Mr. Scruggs's testimony as Hearing Exhibit 3. The revised tariff provisions shall become effective August 1, 2007.

6. The Commission approves and adopts the "Rate 35 Transportation and Standby Sales Service" tariff sheet attached to Mr. Harry L. Scruggs's testimony as Hearing Exhibit 3 and requires an annual contractual election of (a) Transportation Service only, (b) Transportation Service with Standby Service or, (c) Standby Service only. The revised tariff sheet shall become effective August 1, 2007.



7. SCE&G shall recover through the PGA the un-recovered demand costs accumulated under the PGA tariff sheet approved in Commission Docket No. 2005-113-G and Order No. 2005-619. The amount of those costs is \$1.189 million as of February 28, 2007, plus additional amounts arising between that date and the effective date of this Order.

8. SCE&G shall recover carrying costs on the cumulative total over or under-collection balances in the same method and with the same limitations as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679.

9. SCE&G shall continue to maintain the monthly adjustment procedure and notification for the total cost of gas factors as adopted by the Commission in Docket No. 2006-5-G, Order No. 2006-679 until further order of the Commission.

10. SCE&G shall continue to calculate the Demand Charges included in the cost of gas factors as set forth by the Commission in Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales.

11. SCE&G's has conducted its hedging program during the Review Period prudently and consistent with the approvals granted in Docket No. 2006-5-G, Order No. 2006-679. SCE&G shall continue its hedging program under the terms approved by the Commission in Docket No. 2006-5-G, Order No. 2006-679, until further order of the Commission. SCE&G shall continue to report to the ORS and the Commission within 30 days of the close of each month the results of the hedging program for the preceding months along with other information as stipulated in the Settlement Agreement.

12. This Order shall remain in full force and effect until further Order of the Commission.

BY ORDER OF THE COMMISSION:

\_\_\_\_\_  
G. O'Neal Hamilton, Chairman

ATTEST:

\_\_\_\_\_  
C. Robert Moseley, Vice-Chairman

(SEAL)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2007-5-G**  
**June 21, 2007**

|   |   |                      |
|---|---|----------------------|
| IN RE:                                  | ) |                      |
|   | ) |                      |
| Annual Review of Purchased              | ) |                      |
| Gas Adjustment and Gas Purchasing       | ) |                      |
| Policies of South Carolina Electric and | ) | SETTLEMENT AGREEMENT |
| Gas Company                             | ) |                      |
|   | ) |                      |
|   | ) |                      |

This Settlement Agreement ("Settlement Agreement") is made by and between the South Carolina Office of Regulatory Staff ("ORS") and South Carolina Electric & Gas Company ("SCE&G" or "the Company") (collectively referred to as the "Parties" or sometimes individually as "Party");

WHEREAS, on May 3, 2007, the Public Service Commission of South Carolina (the "Commission") issued the notice of hearing for the 2007 Annual Review of Purchased Gas Adjustment and Gas Purchasing Policies ("PGA") of SCE&G;

WHEREAS, the purpose of this proceeding is to review matters related to SCE&G's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, the period under review in this docket is September 1, 2006 to February 28, 2007 ("Review Period");

WHEREAS, the review period of SCE&G's PGA typically consists of a twelve-month time period; however, in this proceeding the Review Period was shortened, pursuant to

Commission Order No. 2006-679 and due to South Carolina Pipeline Corporation's transition to an interstate pipeline effective November 1, 2007;

WHEREAS, ORS has examined the books and records of SCE&G and conducted inquiries and analyses related to the Company's gas purchasing practices and policies, administration of its purchased gas adjustment, and the recovery of its gas costs;

WHEREAS, ORS determined that during the period under review, SCE&G: a) properly administered the purchased gas adjustment; b) employed prudent gas purchasing practices and policies; c) administered the Industrial Sales Program-Rider ("ISP-R") prudently and reasonably and in accordance with the terms of Order No. 2005-619, adopting the Settlement Agreement entered into in Docket No. 2005-113-G, which authorized that program in its current form; d) recovered its gas costs consistent with all applicable tariffs and Commission orders; (e) conducted and administered its hedging program consistent with the authorization granted in Order No. 2006-679 and, f) was prepared during the review period and is currently prepared to meet its firm customers' projected needs via its future supply and capacity asset plans;

WHEREFORE, the Parties have engaged in discussions and in the spirit of compromise, the Parties hereby stipulate and agree to the following terms and conditions:

1) The Parties agree to stipulate into the record before the Commission this Settlement Agreement. The Parties further agree to stipulate into the record the pre-filed direct testimony of Martin K. Phalen, Rose Jackson, Harry L. Scruggs, Roy H. Barnette, and Carey S. Flynt without cross-examination and that each witness will take the stand to present his or her testimony.

2) For the purpose of setting the gas cost recovery factors, the Parties accept the use of ORS's cost of gas calculations for the period September 1, 2006 through February 28, 2007 as set forth in ORS Audit Exhibit RHB-1 attached to the testimony of Roy H. Barnette.

3) The Parties agree to maintain the monthly adjustment procedure and notification procedure for the total cost of gas factors as adopted in Commission Docket No. 2006-5-G, Order No. 2006-679.

4) The Parties acknowledge the demand charges included in the total cost of gas factors will continue to be calculated as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679 by distributing such costs among the rate schedules based upon a 50-50 allocation of peak design day demand and annual forecast sales. SCE&G agrees to use the 50-50 allocation of peak design day demand and annual forecast sales for demand charges in any recalculation of total cost of gas factors under this Settlement Agreement. The Parties agree that the allocation factors contained on page 4 in Mr. Scruggs's pre-filed direct testimony (Residential 66.68%; SGS/MGS 30.58%, LGS 2.74%) are appropriate and should be used for cost of gas calculations made on or after August 1, 2007.

5) The Parties agree that the revised "Purchased Gas Adjustment, Firm Gas Only," tariff sheets attached to Mr. Harry L. Scruggs's testimony as Exhibit \_\_ (HLS-1) are proper in that:

a) They cause the demand costs to be based on actual demand costs and sales volumes; and

b) They eliminate Transportation Service only volumes from the calculation of future monthly demand charges so that the demand cost of gas charges are recovered on a more appropriate cost causation methodology.

The Parties agree that the revised tariff provisions contained in Exhibit \_\_ (HLS-1) should be made effective August 1, 2007. As part of the recalculation of PGA factors for the month following the effective date of the Commission's Order in this proceeding, SCE&G agrees to recalculate the Demand Charge cost of gas factors using the method set forth in those revised tariff sheets and consistent with Paragraph 4 above.

6) The Parties agree that the "Rate 35 Transportation and Standby Sales Service" tariff sheet attached to Mr. Harry L. Scruggs's testimony as Exhibit \_\_ (HLS-2) is proper in that it requires an annual contractual election of a) Transportation Service only, b) Transportation Service with Standby Service or, c) Standby Service only. As part of the recalculation of PGA factors for the month following the annual contractual elections by customers selecting Rate 35, SCE&G agrees to recalculate the Demand Charges cost of gas factors consistent with those elections and using the method set forth in paragraph 4 above.

7) The Parties agree that SCE&G may recover through the PGA the un-recovered demand costs accumulated under the PGA tariff sheet approved in Commission Docket No. 2005-113-G and Order No. 2005-619. The amount of those costs is \$1.189 million as of February 28, 2007, plus additional amounts arising between that date and the effective date of the Order in this proceeding.

8) As part of this Settlement Agreement, the Parties agree that SCE&G shall continue to charge and recover carrying costs on the cumulative total over- or under-collection balances in the same method and with the same limitations as set forth in Commission Docket No. 2006-5-G, Order No. 2006-679.

9) The Parties agree that the hedging program and methodologies approved by Commission Order No. 2006-679 in Docket No. 2006-5-G were conducted and administered during the Review Period consistent with Order No. 2006-679 and that SCE&G's approved hedging program is to continue through the next review period. As of the close of this review period (February 28, 2007), the hedging program approved in PSC Docket No. 2006-5-G and Order No. 2006-679 has been in effect for only four months. The Parties agree that more information will be available at the close of the next review period from which to further evaluate the program.

SCE&G agrees to continue reporting to the Commission and ORS within 30 days following the close of each month the results of the hedging program for the preceding month, which report shall include the hedging transactions closed-out during the month, the additions to or subtractions from the cost of gas resulting from closed-out contracts, the costs of operating the program during the month, and a list of open transactions as of the last day of the month for each succeeding month.

The Parties further agree that SCE&G's hedging program shall continue to be operated independent of and shall be accounted for separate from its purchase of physical gas supply.

10) ORS is charged by law with the duty to represent the public interest of South Carolina pursuant to S.C. Code § 58-4-10(B) (added by Act 175). S.C. Code § 58-4-10(B)(1) through (3) reads in part as follows:

... 'public interest' means a balancing of the following:

- (1) concerns of the using and consuming public with respect to public utility services, regardless of the class of customer;
- (2) economic development and job attraction and retention in South Carolina; and
- (3) preservation of the financial integrity of the State's public utilities and continued investment in and maintenance of utility facilities so as to provide reliable and high quality utility services.

ORS believes this Settlement Agreement reached among the Parties serves the public interest as defined above.

11) The Parties agree to advocate that the Commission accept and approve this Settlement Agreement in its entirety as a fair, reasonable and full resolution of all issues in the above-captioned proceeding and to take no action inconsistent with its adoption by the Commission. The Parties further agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission. The Parties agree to use reasonable efforts to defend and support any

Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

12) The Parties agree that signing this Settlement Agreement will not constrain, inhibit, impair, or prejudice their arguments or positions held in other collateral proceedings, nor will it constitute a precedent or evidence of acceptable practice in future proceedings. If the Commission declines to approve the Settlement Agreement in its entirety, then any Party desiring to do so may withdraw from the Settlement Agreement without penalty or obligation.

13) This Settlement Agreement shall be interpreted according to South Carolina law.

14) The above terms and conditions fully represent the agreement of the Parties hereto. Therefore, each Party acknowledges its consent and agreement to this Settlement Agreement by affixing its signature or by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any Party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement. The Parties agree that in the event any Party should fail to indicate its consent to this Settlement Agreement and the terms contained herein, then this Settlement Agreement shall be null and void and will not be binding on any Party.



WE AGREE:

**Representing the South Carolina Office of Regulatory Staff**

Shannon Bowyer Hudson

Shannon Bowyer Hudson, Esquire

Jeffrey M. Nelson, Esquire

**Office of Regulatory Staff**

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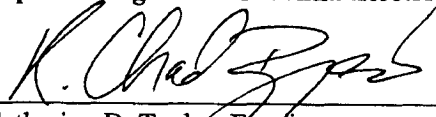
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WE AGREE:

**Representing South Carolina Electric & Gas Company**

  
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